

FARMERS NATIONAL BANC CORP /OH/
Form 10-Q
November 06, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the Quarterly period ended September 30, 2014

Commission file number 001-35296

FARMERS NATIONAL BANC CORP.

(Exact name of registrant as specified in its charter)

OHIO	34-1371693
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No)
20 South Broad Street Canfield, OH	44406
(Address of principal executive offices)	(Zip Code)

(330) 533-3341

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 2014
Common Stock, No Par Value	18,408,612 shares

PART I - FINANCIAL INFORMATION

Item 1 Financial Statements (Unaudited)

Included in Part I of this report:

Farmers National Banc Corp. and Subsidiaries

<u>Consolidated Balance Sheets</u>	2
<u>Consolidated Statements of Income</u>	3
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	4
<u>Consolidated Statements of Cash Flows</u>	5
<u>Notes to Unaudited Consolidated Financial Statements</u>	6

Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
---	----

Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	38
--	----

Item 4 <u>Controls and Procedures</u>	39
---------------------------------------	----

<u>PART II - OTHER INFORMATION</u>	40
------------------------------------	----

Item 1 <u>Legal Proceedings</u>	40
---------------------------------	----

Item 1A <u>Risk Factors</u>	40
-----------------------------	----

Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
---	----

Item 3 <u>Defaults Upon Senior Securities</u>	40
---	----

Item 4 <u>Mine Safety Disclosures</u>	40
---------------------------------------	----

Item 5 <u>Other Information</u>	40
---------------------------------	----

Item 6 <u>Exhibits</u>	41
------------------------	----

<u>SIGNATURES</u>	42
-------------------	----

10-Q Certifications

Section 906 Certifications

CONSOLIDATED BALANCE SHEETS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(Unaudited)	(In Thousands of Dollars)	
	September 30,	December 31,
	2014	2013
ASSETS		
Cash and due from banks	\$ 14,719	\$ 12,957
Federal funds sold and other	13,575	14,556
TOTAL CASH AND CASH EQUIVALENTS	28,294	27,513
Securities available for sale	404,895	422,985
Loans held for sale	895	158
Loans	646,981	630,684
Less allowance for loan losses	7,333	7,568
NET LOANS	639,648	623,116
Premises and equipment, net	17,243	17,187
Goodwill	6,354	6,354
Other intangibles	3,414	3,989
Bank owned life insurance	16,250	15,908
Other assets	22,746	20,116
TOTAL ASSETS	\$ 1,139,739	\$ 1,137,326
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	\$ 164,071	\$ 155,893
Interest-bearing	748,929	759,323
TOTAL DEPOSITS	913,000	915,216
Short-term borrowings	72,032	81,617
Long-term borrowings	18,617	19,822
Other liabilities	14,689	7,664
TOTAL LIABILITIES	1,018,338	1,024,319
Commitments and contingent liabilities		
Stockholders' Equity:		
Common Stock - Authorized 35,000,000 shares; issued 19,031,059	105,992	105,905
Retained earnings	19,350	14,215
Accumulated other comprehensive income (loss)	(615)	(5,465)
Treasury stock, at cost; 471,579 shares in 2014 and 255,079 shares in 2013	(3,326)	(1,648)
TOTAL STOCKHOLDERS' EQUITY	121,401	113,007
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,139,739	\$ 1,137,326

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(Unaudited)	(In Thousands except Per Share Data)			
	For the Three Months Ended		For the Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2014	2013	2014	2013
INTEREST AND DIVIDEND INCOME				
Loans, including fees	\$7,950	\$ 7,724	\$23,023	\$ 23,031
Taxable securities	1,803	1,598	5,512	5,240
Tax exempt securities	605	742	1,900	2,213
Dividends	47	47	142	148
Federal funds sold and other interest income	8	11	17	29
TOTAL INTEREST AND DIVIDEND INCOME	10,413	10,122	30,594	30,661
INTEREST EXPENSE				
Deposits	987	1,136	3,070	3,450
Short-term borrowings	11	13	35	38
Long-term borrowings	130	125	396	318
TOTAL INTEREST EXPENSE	1,128	1,274	3,501	3,806
NET INTEREST INCOME	9,285	8,848	27,093	26,855
Provision for loan losses	425	340	1,055	765
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,860	8,508	26,038	26,090
NONINTEREST INCOME				
Service charges on deposit accounts	711	633	1,915	1,648
Bank owned life insurance income	115	337	342	570
Trust fees	1,561	1,368	4,610	4,105
Insurance agency commissions	85	56	255	139
Security gains	1	597	85	853
Retirement plan consulting fees	395	280	1,392	280
Investment commissions	378	173	815	686
Net gains on sale of loans	114	146	250	448
Other operating income	520	583	1,446	1,544
TOTAL NONINTEREST INCOME	3,880	4,173	11,110	10,273
NONINTEREST EXPENSES				
Salaries and employee benefits	5,330	6,475	15,448	17,080
Occupancy and equipment	1,145	1,053	3,395	3,167
State and local taxes	222	327	685	984
Professional fees	648	742	1,814	1,691
Merger related cost	0	9	0	270
Advertising	250	225	727	638
FDIC insurance	184	181	555	538
Intangible amortization	192	214	575	410
Core processing charges	418	353	1,168	1,035
Other operating expenses	1,387	1,347	3,928	4,023
TOTAL NONINTEREST EXPENSES	9,776	10,926	28,295	29,836

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

INCOME BEFORE INCOME TAXES	2,964	1,755	8,853	6,527
INCOME TAXES	688	143	2,035	1,042
NET INCOME	\$2,276	\$ 1,612	\$6,818	\$ 5,485
EARNINGS PER SHARE - basic and diluted	\$0.12	\$ 0.09	\$0.36	\$ 0.29

See accompanying notes

3

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(Unaudited)	(In Thousands of Dollars)			
	For the Three Months Ended		For the Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2014	2013	2014	2013
NET INCOME	\$2,276	\$1,612	\$6,818	\$5,485
Other comprehensive income (loss):				
Net unrealized holding gains (losses) on available for sale securities	527	(5,939)	7,547	(17,399)
Reclassification adjustment for (gains) losses realized in income	(1)	(597)	(85)	(853)
Net unrealized holding gains (losses)	526	(6,536)	7,462	(18,252)
Income tax effect	(184)	2,286	(2,612)	6,388
Other comprehensive income (loss), net of tax	342	(4,250)	4,850	(11,864)
TOTAL COMPREHENSIVE INCOME (LOSS)	\$2,618	\$(2,638)	\$11,668	\$(6,379)

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(Unaudited)	(In Thousands of Dollars)	
	Nine Months Ended	
	September 30,	September 30,
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$6,818	\$5,485
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	1,055	765
Depreciation and amortization	1,487	1,410
Net amortization of securities	1,105	2,216
Security gains	(85)	(853)
Loss on sale of other real estate owned	22	30
Bank owned life insurance income	(342)	(353)
Income recognized from death benefit on bank owned life insurance	0	(217)
Origination of loans held for sale	(11,599)	(22,350)
Proceeds from loans held for sale	11,112	25,406
Net gains on sale of loans	(250)	(448)
Net change in other assets and liabilities	(1,006)	3,505
NET CASH FROM OPERATING ACTIVITIES	8,317	14,596
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and repayments of securities available for sale	35,868	62,427
Proceeds from sales of securities available for sale	34,169	55,614
Purchases of securities available for sale	(42,496)	(111,696)
Loan originations and payments, net	(17,884)	(25,885)
Proceeds from sale of other real estate owned	64	199
Proceeds from BOLI death benefit	0	328
Proceeds from sale of real estate	0	118
Additions to premises and equipment	(888)	(181)
Purchase of National Associates Inc., net	0	(2,100)
NET CASH FROM INVESTING ACTIVITIES	8,833	(21,176)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	(2,216)	(15,599)
Net change in short-term borrowings	(9,585)	18,357
Repayment of long-term borrowings	(1,205)	(344)
New Federal Home Loan Bank advance borrowings	0	10,000
Cash dividends paid	(1,685)	(1,684)
Net proceeds from issuance of treasury stock	32	0
Acquisition of treasury shares	(1,710)	(1,606)
NET CASH FROM FINANCING ACTIVITIES	(16,369)	9,124
NET CHANGE IN CASH AND CASH EQUIVALENTS	781	2,544
Beginning cash and cash equivalents	27,513	37,759
Ending cash and cash equivalents	\$28,294	\$40,303

Supplemental cash flow information:		
Interest paid	\$3,532	\$3,829
Income taxes paid	\$1,205	\$1,130
Supplemental noncash disclosures:		
Transfer of loans to other real estate	\$297	\$103
Issuance of stock for NAI acquisition	\$0	\$1,400
Contingent consideration for NAI acquisition	\$0	\$920
Security purchases not settled	\$3,008	\$6,606

See accompanying notes

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Principles of Consolidation:

Farmers National Banc Corp. (“Company”) is a one-bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company provides full banking services through its nationally chartered subsidiary, The Farmers National Bank of Canfield (“Bank”). The Company provides trust services through its subsidiary, Farmers Trust Company (“Trust”), and insurance services through the Bank’s subsidiary, Farmers National Insurance (“Insurance”). In addition to the Insurance subsidiary, the Bank has created Farmers of Canfield Investment Co. (“Investments”), a new subsidiary with the primary purpose of investing in municipal securities. On July 1, 2013 the Company acquired National Associates, Inc. (“NAI”), a retirement plan consulting firm located in Cleveland, Ohio. As a result of the acquisition the Company now provides retirement consulting services through NAI. The consolidated financial statements include the accounts of the Company, the Bank and its subsidiaries, along with the Trust and NAI. All significant intercompany balances and transactions have been eliminated in the consolidation.

Basis of Presentation:

The unaudited condensed consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (“U.S. GAAP”) for complete financial statements. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s 2013 Annual Report to Shareholders included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. The interim consolidated financial statements include all adjustments (consisting of only normal recurring items) that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of operations for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year. Certain items included in the prior period financial statements were reclassified to conform to the current period presentation. There was no effect on net income or total stockholders’ equity.

Estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, deferred tax assets, carrying amount of goodwill and fair values of financial instruments are particularly subject to change.

Segments:

The Company provides a broad range of financial services to individuals and companies in northeastern Ohio. Operations are managed and financial performance is primarily aggregated and reported in three lines of business, the Bank segment, the Trust segment and the Retirement Consulting segment.

Comprehensive Income (Loss):

Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) consists of unrealized gains and losses on securities available for sale and changes in the funded status of the post-retirement health plan, which are recognized as separate components of equity, net of tax effects. For the three and nine month periods ended September 30, 2014, there was no change in the funded status of the post-retirement health plan.

Newly Issued but Not Yet Effective Accounting Standards:

In May 2014, FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU creates a new topic, Topic 606, to provide guidance on revenue recognition for entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additional disclosures are required to provide quantitative and qualitative information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2016. Early adoption is not permitted. Management is currently evaluating the impact of the adoption of this guidance on the Company's consolidated financial statements.

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

In January 2014, the FASB issued ASU 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The objective of the amendments in ASU 2014-04 to Topic 310, "Receivables - Troubled Debt Restructurings by Creditors," is to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. An entity can elect to adopt the amendments using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

Securities:

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolio at September 30, 2014 and December 31, 2013 and the corresponding amounts of unrealized gains and losses recognized in accumulated other comprehensive income (loss):

(In Thousands of Dollars)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2014				
U.S. Treasury and U.S. government sponsored entities	\$ 27,220	\$ 482	\$ (173)	\$ 27,529
State and political subdivisions	91,767	2,194	(1,000)	92,961
Corporate bonds	936	2	(5)	933
Mortgage-backed securities - residential	234,907	1,789	(2,090)	234,606
Collateralized mortgage obligations	27,089	140	(1,298)	25,931
Small business administration	23,931	1	(1,215)	22,717
Equity securities	119	100	(1)	218
Totals	\$ 405,969	\$ 4,708	\$ (5,782)	\$ 404,895

(In Thousands of Dollars)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2013				
U.S. Treasury and U.S. government sponsored entities	\$ 50,942	\$ 755	\$ (387)	\$ 51,310
State and political subdivisions	96,239	1,302	(2,807)	94,734
Corporate bonds	1,540	0	(15)	1,525
Mortgage-backed securities - residential	226,865	1,199	(5,084)	222,980
Collateralized mortgage obligations	30,227	162	(1,713)	28,676
Small business administration	25,592	1	(2,020)	23,573
Equity securities	117	70	0	187

Totals	\$431,522	\$ 3,489	\$(12,026)	\$422,985
--------	-----------	----------	-------------	-----------

Proceeds from the sale of portfolio securities were \$917 thousand and \$34.2 million during the three and nine month periods ended September 30, 2014. Gross gains of \$2 thousand and \$335 thousand were realized on these sales during the three and nine month periods ended September 30, 2014. Gross losses of \$1 thousand and \$250 thousand were realized on these sales during the three and nine month periods ended September 30, 2014. Proceeds from the sales of equity securities were \$54.7 million and \$55.6 million during the three and nine month period ended September 30, 2013. Gross gains of \$738 thousand and \$994 thousand along with gross losses of \$141 thousand were realized on these sales during the three and nine month period ended September 30, 2013.

7

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

The amortized cost and fair value of the debt securities portfolio are shown by expected maturity. Expected maturities may differ from contractual maturities if issuers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

(In Thousands of Dollars)	September 30, 2014	
	Amortized Cost	Fair Value
Maturity		
Within one year	\$9,912	\$10,027
One to five years	56,358	57,174
Five to ten years	40,745	41,349
Beyond ten years	12,908	12,873
Mortgage-backed, collateralized mortgage obligations and small business administration securities	285,927	283,254
Total	\$405,850	\$404,677

The following table summarizes the investment securities with unrealized losses at September 30, 2014 and December 31, 2013, aggregated by major security type and length of time in a continuous unrealized loss position. Unrealized losses for U.S. Treasury and U.S. government sponsored entities and corporate bonds, for less than twelve months, rounded to less than \$1 thousand in 2014. In addition, unrealized losses for equity securities rounded to less than \$1 thousand in 2013.

(In Thousands of Dollars)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2014						
Available-for-sale						
U.S. Treasury and U.S. government sponsored entities	\$595	\$ 0	\$10,301	\$ (173)	\$10,896	\$ (173)
State and political subdivisions	772	(2)	24,347	(998)	25,119	(1,000)
Corporate bonds	99	\$ 0	479	(5)	578	(5)
Mortgage-backed securities - residential	52,822	(245)	70,198	(1,845)	123,020	(2,090)
Collateralized mortgage obligations	0	0	19,782	(1,298)	19,782	(1,298)
Small business administration	0	0	22,613	(1,215)	22,613	(1,215)
Equity securities	12	(1)	0	0	12	(1)
Total	\$54,300	\$ (248)	\$147,720	\$ (5,534)	\$202,020	\$ (5,782)

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

(In Thousands of Dollars)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2013						
Available-for-sale						
U.S. Treasury and U.S. government sponsored entities	\$20,776	\$ (387)	\$0	\$ 0	\$20,776	\$ (387)
State and political subdivisions	34,851	(1,855)	7,492	(952)	42,343	(2,807)
Corporate bonds	1,052	(2)	473	(13)	1,525	(15)
Mortgage-backed securities - residential	141,024	(3,735)	27,026	(1,349)	168,050	(5,084)
Collateralized mortgage obligations	5,283	(450)	15,726	(1,263)	21,009	(1,713)
Small business administration	6,927	(491)	16,520	(1,529)	23,447	(2,020)
Equity securities	7	0	0	0	7	0
Total	\$209,920	\$ (6,920)	\$67,237	\$ (5,106)	\$277,157	\$ (12,026)

8

Other-Than-Temporary-Impairment

Management evaluates securities for other-than-temporary impairment (“OTTI”) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Investment securities are generally evaluated for OTTI under FASB Accounting Standards Codification (“ASC”) 320, Investments – Debt and Equity Securities. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, whether the market decline was affected by macroeconomic conditions and whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. In analyzing an issuer’s financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, or U.S. government sponsored enterprises, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer’s financial condition. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI occurs, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis. If an entity intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, the OTTI shall be recognized in earnings equal to the entire difference between the investment’s amortized cost basis and its fair value at the balance sheet date. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income or loss. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

As of September 30, 2014, the Company’s security portfolio consisted of 378 securities, 91 of which were in an unrealized loss position. The majority of the unrealized losses on the Company’s securities are related to its holdings of mortgage-backed securities, collateralized mortgage obligations, state and political subdivision securities, and small business administration securities as discussed below.

Unrealized losses on debt securities issued by state and political subdivisions have not been recognized into income. Generally these securities have maintained their investment grade ratings and management does not have the intent and is not required to sell these securities before their anticipated recovery. The fair value is expected to recover as the securities approach their maturity date.

All of the Company’s holdings of collateralized mortgage obligations and residential mortgage-backed securities were issued by U.S. government-sponsored entities. Unrealized losses on these securities have not been recognized into income. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, the issues are guaranteed by the issuing entity and which the U.S. government has affirmed its commitment to support, and because the Company does not have the intent to sell these residential mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be OTTI.

Management does not believe any unrealized losses on small business administration securities represent an other-than-temporary impairment. The securities are issued and backed by the full faith and credit of the U.S. government and the Company does not have the intent to sell these securities before their anticipated recovery. The fair value of these securities is expected to recover as they approach their maturity.

Loans:

Loan balances were as follows:

	September 30,	December 31,
(In Thousands of Dollars)	2014	2013
Commercial real estate		
Owner occupied	\$ 75,881	\$ 86,286
Non-owner occupied	116,082	107,625
Other	23,151	24,381
Commercial	115,418	105,023
Residential real estate		
1-4 family residential	149,576	144,225
Home equity lines of credit	29,818	26,448
Consumer		
Indirect	121,819	121,446
Direct	9,723	10,237
Other	3,323	3,031
Subtotal	\$ 644,791	\$ 628,702
Net deferred loan costs	2,190	1,982
Allowance for loan losses	(7,333)	(7,568)
Net loans	\$ 639,648	\$ 623,116

The following tables present the activity in the allowance for loan losses by portfolio segment for the three and nine month periods ended September 30, 2014 and 2013:

Three Months Ended September 30, 2014

(In Thousands of Dollars)	Commercial		Residential		Unallocated	Total
	Real Estate	Commercial	Real Estate	Consumer		
Allowance for loan losses						
Beginning balance	\$ 2,722	\$ 1,076	\$ 1,784	\$ 1,518	\$ 256	\$ 7,356
Provision for loan losses	(449)	322	301	353	(102)	425
Loans charged off	0	(6)	(245)	(505)	0	(756)
Recoveries	30	14	23	241	0	308
Total ending allowance balance	\$ 2,303	\$ 1,406	\$ 1,863	\$ 1,607	\$ 154	\$ 7,333

Nine Months Ended September 30, 2014

(In Thousands of Dollars)	Commercial	Commercial	Residential	Consumer	Unallocated	Total
---------------------------	------------	------------	-------------	----------	-------------	-------

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

	Real Estate		Real Estate			
Allowance for loan losses						
Beginning balance	\$ 2,752	\$ 1,219	\$ 1,964	\$ 1,419	\$ 214	\$7,568
Provision for loan losses	(463)	185	378	1,015	(60)	1,055
Loans charged off	(90)	(25)	(525)	(1,602)	0	(2,242)
Recoveries	104	27	46	775	0	952
Total ending allowance balance	\$ 2,303	\$ 1,406	\$ 1,863	\$ 1,607	\$ 154	\$7,333

10

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

Three Months Ended September 30, 2013

	Commercial		Residential			Total
(In Thousands of Dollars)	Real Estate	Commercial	Real Estate	Consumer	Unallocated	
Allowance for loan losses						
Beginning balance	\$ 3,050	\$ 1,431	\$ 1,751	\$ 1,180	\$ 178	\$7,590
Provision for loan losses	(213)	(14)	171	398	(2)	340
Loans charged off	(219)	0	(135)	(561)	0	(915)
Recoveries						